

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN INVESTIGATION AND REVIEW OF)	
LOUISVILLE GAS AND ELECTRIC)	
COMPANY'S CAPACITY EXPANSION STUDY)	CASE NO. 9243
AND ITS PLANS RELATED TO TRIMBLE)	
COUNTY UNIT NO. 1)	

O R D E R

During the last rate case of Louisville Gas and Electric Company ("LG&E"), Case No. 8924, General Adjustment in Electric and Gas Rates of Louisville Gas and Electric Company, a considerable amount of time was devoted to LG&E's forecasting and planning efforts, especially as they related to the Trimble County plant. The Trimble County plant is a 495 megawatt coal-fired unit which is currently under construction and scheduled for operation in July, 1988. Several times during the hearing in Case No. 8924, the management of LG&E indicated that it wanted to complete other studies to evaluate various alternatives relative to Trimble County Unit 1. Recently, LG&E provided the Commission with a three-volume report entitled Capacity Expansion Study. The report was prepared by Stone and Webster Management Consultants, Inc., ("S&W") of New York. The report recommends a strategic capacity expansion plan which consists of completing Trimble County Unit 1 in July, 1988; an attempt to sell up to 25

percent of the unit on a joint ownership basis; the marketing of additional capacity sales to other utilities; the installation of combustion turbine capacity to meet future needs; the accommodation of power from cogeneration and small power production sources into LG&E's system should they develop in the future; the implementation of load management techniques which are determined to be cost effective; and a review of this plan when a revised load forecast is completed this spring.

In the final Order in Case No. 8924, the Commission stated that it "is extremely interested in reviewing these studies so as to determine whether the best option is being pursued."¹ The Commission has made a preliminary review of this study and believes the study raises several questions. For instance, the study recommends that LG&E attempt to sell up to 25 percent of the Trimble County Unit 1 as well as market additional wholesale sales of the capacity yet little reference is made in the study to LG&E's ability to sell this capacity. The Commission notes that this strategy is similar to the strategies espoused by several other utilities in the region which have met with only limited success. There are other areas of concern related to some of the assumptions used in the study. For example, in Volume II, the study states that "(t)he economics of installing and owning 100 percent of Trimble County is very

¹ Order in Case No. 8924, Louisville Gas and Electric Company, entered May 16, 1984, page 33.

dependent on the load forecast."² However, S&W modified LG&E's forecasts based on their "review and discussions with LG&E's staff and outside agencies, including the Louisville Chamber of Commerce and the University of Louisville's Urban Studies Center."³ Specifically, S&W accepted LG&E's projections of growth in peak demands of .7 percent and 1.1 percent growth in the low and base cases respectively. However, for the high growth case, S&W chose not to use LG&E's 1.6 percent projection but used instead a 2.1 percent projection of growth in peak demand. Further, in converting the peak forecasts to energy forecasts, S&W did not use LG&E's forecasts of a 50 percent load factor for the low, base and high growth scenarios. Instead S&W used a 52 percent load factor for the low and base cases and a 54 percent load factor for the high case.⁴

The Commission has pointed out these concerns only to support its conclusion that a public review and investigation of this study is appropriate. The Commission does not intend to imply that these are the only areas of concern. In any study of this magnitude, there are numerous assumptions and judgments made. This study and the related assumptions and judgments should be reviewed in a public forum. The Commission recognizes that this review could occur in the context of a rate hearing, as

² Capacity Expansion Study, Volume II--Technical Report by Stone and Webster Management Consultants, Inc., page 36.

³ Ibid., page 38.

⁴ Ibid.

is usually the case. However, the Commission believes this study should be reviewed separately for two reasons. First, there are often many other issues in a rate proceeding that would make a thorough review of this study difficult. The second reason, which is the most significant to the Commission, is that if LG&E is to meet a scheduled completion date of July 1988, the level of construction activity will need to accelerate at a rapid pace in the very near future. In its last two rate proceedings, LG&E has made reference to its decision to keep the construction activity at a minimum level until the Trimble County plant is within 3 years of its likely completion date. At that time, LG&E will have to begin signing contracts and making financial commitments for equipment, material and other services. Also provisions will have to be made to increase the labor force at the Trimble County site. If LG&E is committed to a July 1988 completion date for the Trimble County Unit, then it will have to begin a more intensive construction effort this spring and summer. Thus the Commission believes that a review of this study, and LG&E's plans to implement its recommendations, should begin immediately.

In order to initiate this process, the Commission will send this Order to all parties in LG&E's last rate case. However, this proceeding will not be limited solely to them, and others may also request intervention. Further, the Commission is scheduling a formal conference for January 16, 1985. During this conference, the Commission intends to determine the interest and likely extent of participation of the various parties; establish

a procedural schedule which will allow a timely yet thorough review and evaluation of the S&W study by all parties; and receive comments from LG&E concerning its schedule for construction of Trimble County Unit 1, the financial commitments required to complete the unit, the planned level of employment, and identification and description of various contracts that will need to be entered into for completion, with particular notice to payments that would likely have to be made even if the unit was eventually cancelled.

IT IS THEREFORE ORDERED that this docket be established to review the S&W study, LG&E's plans to implement the study's recommendations and LG&E's plans concerning the completion of the Trimble County Unit No. 1.

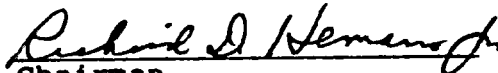
IT IS FURTHER ORDERED that LG&E shall provide the Commission with 10 copies of the three-volume S&W report by January 2, 1985.


IT IS FURTHER ORDERED that LG&E shall provide copies of the S&W study to any party requesting intervention in this docket.

IT IS FURTHER ORDERED that a formal conference is scheduled for 1:30 p.m., Eastern Standard Time, January 16, 1985, in the Commission's hearing room in Frankfort, Kentucky, for the purposes set forth herein.

Done at Frankfort, Kentucky, this 20th day of December, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary